

**DELAWARE CASH MANAGEMENT POLICY BOARD**  
**RESOLUTION NO. ~~2018~~2020-1 FURTHER AMENDING**  
**INVESTMENT ARCHITECTURE FOR THE STATE’S CASH**  
**ACCOUNTS<sup>1</sup>**

**WHEREAS**, the Delaware Cash Management Policy Board (the “**Board**”) is authorized and empowered by 29 *Del. C.* § 2716(a) to establish policies (a) for the investment of all money belonging to the State of Delaware (the “**State**”) or on deposit from its political subdivisions, except money deposited in any State pension fund or deferred compensation program, and (b) to determine the terms, conditions and other matters relating to the investment of State Funds, including the designation of permissible investments, the allocation between short- and long-term investments, the selection of investment managers (“**Managers**”) and the allocation of funds among the Managers;

**WHEREAS**, the Board has promulgated investment objectives and guidelines for the investment of State Funds, as memorialized in 1 *Del. Admin. C.* § 1201 (the “**Guidelines**”);

**WHEREAS**, under the Guidelines, unless otherwise determined by the Board, the Office of the State Treasurer (“**OST**”) has discretionary authority to allocate State Funds among the Cash Accounts in accordance with the general purposes of the Accounts and the investments objectives for those Accounts set forth in the Guidelines;

**WHEREAS**, the Guidelines do not expressly prescribe (a) the specific amounts or percentages of State Funds that must remain in the Cash Accounts, (b) the number of Liquidity or Reserve Accounts that will be maintained to manage State Funds, (c) the number of Managers that are required or authorized to provide investment services for the Liquidity and Reserve Accounts, ~~or~~ (d) the benchmarks or benchmark proxies that will be used by OST and the Board to assess the performance of State Funds and the Managers, or (e) the treatment of restricted State Funds (“**Open Investment Issues**”);

**WHEREAS**, pursuant to Resolution No. 2017-1, the Board preliminarily approved an Investment investment Architecture architecture addressing the certain of the Open Investment Issues to provide a more detailed framework for the investment of State Funds ~~and facilitate a procurement process for investment management services~~;

**WHEREAS**, pursuant to Resolution No. 2018-1, the Board approved an Amended Investment Architecture that refined the benchmark guidance and Reserve Account sStructure;

~~**WHEREAS**, subsequent to the approval of the Investment Architecture, the Board and OST commenced a formal procurement process for investment management services and solicited proposals from firms desiring to provide such services to the State;~~

~~**WHEREAS**, in connection with the procurement process, the Board and OST invited the Board’s investment consultant and potential Managers to provide comments and suggest changes to the Investment Architecture;~~

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<sup>1</sup> Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Guidelines or Resolution No. ~~2017~~2018-1, as appropriate.

WHEREAS, on ~~January 11, 2018~~April 15, 2020, at a special meeting of the Board's Investment Subcommittee (the "**Subcommittee**") at which a quorum of the members of the Subcommittee was present, the Subcommittee reviewed and discussed various changes to the Amended Investment Architecture ~~proposed by the Board's investment consultant and several prospective Managers;~~

WHEREAS, on ~~February 7~~May 6, 20182020, at a regularly scheduled meeting of the Subcommittee at which a quorum of the members of the Subcommittee was present, the Subcommittee voted to recommend to the full Board certain ~~of the~~ proposed changes to the Amended Investment Architecture, ~~which approved changes are reflected in the amended Investment Architecture attached hereto as Exhibit A (the "Amended Investment Architecture");~~ and

WHEREAS, on ~~February~~May 2827, 20182020, at a regular public meeting of the Board at which a quorum of the members of the Board was present, the Board by unanimous vote approved the Second Amended Investment Architecture attached hereto as Exhibit A (the "Second Amended Investment Architecture") and the form of this Resolution;

**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD:**

1. The Second Amended Investment Architecture is approved and adopted by the Board, effective as of ~~March~~May 27, 2020~~1, 2018~~ (the "**Effective Date**"); ~~provided, however, Managers shall have until April 2, 2018, to bring their portfolios into compliance with the Amended Investment Architecture.~~
2. OST and its officers and employees are authorized and directed to take such action as may be necessary or appropriate to effectuate or carry out the purpose and intent of this Resolution, including, without limitation, ~~any action that may be necessary to formally revise the Guidelines if and as necessary under Chapter 101 of Title 29 of the Delaware Code, and~~ the execution and delivery of any documents, instruments, agreements or amendments as may be necessary, advisable or appropriate to implement the Second Amended Investment Architecture, and the taking of any such action shall conclusively evidence the appropriateness or necessity of any such documents, instruments or agreements.
3. The Board reserves the right, ~~whether prior to or after the Effective Date,~~ to make any changes to the Second Amended Investment Architecture that it believes are in the best interest of the State.
4. All acts, transactions or agreements undertaken prior to the adoption of this Resolution by any member of the Board or any officers or employees of OST in connection with the matters authorized by this Resolution and all actions incidental thereto are hereby ratified, confirmed and adopted by Board.

**Adopted by the Cash Management Policy  
Board on May 27, 2020~~February 28, 2018~~**

John Flynn, Chairperson

ATTEST:

~~Ken Simpler~~ Colleen Davis, State Treasurer  
& Board Member

## EXHIBIT A

### SECOND AMENDED INVESTMENT ARCHITECTURE FOR CASH ACCOUNTS

The following Second Amended Investment Architecture (the “Investment Architecture”) shall govern the management of the State’s Cash Accounts. The Investment Architecture is intended to provide the Office of State Treasurer (“OST”) and the Managers of such Accounts with a flexible framework to maintain the safety and availability of State Funds to meet the State’s immediate and intermediate funding needs and maximize the return on State Funds. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Guidelines or Board Resolution No. ~~2018~~2020-1, as appropriate.

#### I. Allocation Among Cash Accounts

~~Under t~~The Investment Architecture, ~~contemplates that, on an annual average basis, (a) approximately \$100 million of a certain portion of State Funds, as determined by OST, in its discretion, will be held in Collection and Disbursement Accounts and used to cover anticipated near-term transactions meet the State’s anticipated near-term operating requirements. Amounts exceeding the State’s projected near-term cash needs (“Excess Cash”) shall be invested and held in Liquidity or Reserve Accounts in accordance with the Guidelines and this Investment Architecture.~~

~~Unless the Board by majority vote determines otherwise, (a) the Liquidity Accounts should have a target balance of approximately twenty-five percent (25%) of Excess Cash, as determined by investment account balances reported at month end, and (b) Reserve Accounts shall hold all other Excess Cash, (b) approximately \$400 million of State Funds not needed for near term operating requirements will be held in Liquidity Accounts and used to meet anticipated funding needs of the State and (c) approximately \$1.2 billion of State Funds will be held in Reserve Accounts and made available if an as needed to satisfy the State’s unanticipated funding needs. A discretionary buffer of five percent (5%) shall per permitted. If the aggregate balance of the Liquidity Accounts exceeds thirty percent (30%) of Excess Cash at the end of any month and is projected to continue to exceed such percentage for all or a significant portion of the following~~

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month, OST shall consult with the Chair of the Subcommittee, who shall have authority to direct OST to rebalance, or not.<sup>1</sup>

## **II. Allocation Among Management of Liquidity Accounts and Managers**

There shall be two (2) Liquidity Accounts, each with its own Liquidity Manager. ~~State Funds in the Liquidity Accounts will be allocated to two (2) Liquidity Managers. Each Liquidity Manager may receive allocations and manage State Funds totaling up to approximately \$200 million on an annual average basis.~~ The Liquidity Accounts will be managed in accordance with relevant sections ~~4 and 6~~ of the Guidelines.

OST may in its discretion draw on State Funds Excess Cash in one Liquidity Account or both Liquidity Accounts to meet anticipated funding needs within a given fiscal year. Discretionary draws normally will be made on a pro rata basis. One or both of the Liquidity Accounts may be completely liquidated during certain periods of the fiscal year.

OST shall have discretion to replenish the Liquidity Accounts as revenues are received throughout the fiscal year. Refunding of the Liquidity Accounts normally will be made on a pro rata basis.

## **III. Allocation Among Management of Reserve Accounts and Managers**

There shall be three (3) “Tiers” of Reserve Accounts, with each Tier having a unique investment durationmaturity target. The Tier 1 Reserve Account has a ~~durationmaturity~~ target of one (1) to three (3) years. The Tier 2 Reserve Account has a durationmaturity target of one (1) to five (5) years. The Tier 3 Reserve Accounts have a ~~durationmaturity~~ target of five (5) to ten (10) years. There shall be two (2) Tier 3 Reserve Accounts, each with its own Reserve Manager.

State Funds Excess Cash in the Reserve Accounts will be ~~allocated to~~ distributed among four (4) Reserve Managers. ~~Each Reserve Manager will manage an account in a specific Tier and may receive allocations and manage State Funds totaling up to approximately \$300 million on an annual average basis.~~ The Reserve Accounts will be managed in accordance with sections 4 and 7-relevant sections of the Guidelines.

In the event the State has unanticipated funding needs, draws from the Reserve Accounts should be made on a pro rata basis. Refunding of the Reserve Accounts should likewise be made on a pro rata basis. ~~first from the lowest numbered available Tier, except as noted below. When the~~

<sup>1</sup> Effective immediately, and through December 31, 2020 or such other date as may be approved by the Board, to provide for additional liquidity during the COVID-19 pandemic, (a) the target balance referenced in the first sentence shall be thirty percent (30%) of Excess Cash, and (b) the aggregate balance referenced in the third sentence shall be thirty-five percent (35%) of Excess Cash. Notwithstanding the foregoing, the liquidity allocations percentages set forth in Section I shall be 30% and the aggregate balance shall be 35% through 12/31/2020, to provide for additional liquidity during the COVID-19 pandemic.

~~lowest numbered available Tier has been exhausted, OST may draw on and utilize State Funds in the Reserve Account with the next lowest numbered available Tier. OST shall have discretion to draw from the Reserve Accounts, regardless of Tier number, to access cash or near-maturity investments in an effort to minimize losses or transactional costs. OST may, with the consent of the Chair of the Subcommittee, deviate from the pro rata draw and refunding requirements.~~

~~OST shall have discretion to replenish the Reserve Accounts as revenues are received throughout the fiscal year. Refunding of the Reserve Accounts need not be made on a pro rata basis or with preference for any particular Tier.~~

#### IV. Restricted Amounts

~~The Tier ~~f1~~ Reserve Account shall include the “Budget Reserve Account” provided for in art. VIII, § 6 of the Delaware Constitution of 1897. Excess Cash in the Budget Reserve Account may not be accessed absent a 3/5 vote of the members of each house of the General Assembly.~~

~~The Tier ~~f2~~ Reserve Account shall include the “Budget Stabilization Fund” provided for in Section 77 of House Bill 225, the fiscal year 2020 Budget Bill. Draws from the Budget Stabilization Fund must be authorized by an act of the General Assembly.<sup>2</sup>~~

~~Amounts received directly by the State from the federal government in response the Covid-19 emergency (“**Emergency Funds**”) shall be allocated pro rata to the Liquidity Managers and managed in separate liquidity accounts (“**Special Liquidity Accounts**”) in accordance with the Board’s directives. Emergency Funds held within Special Liquidity Accounts shall not be deemed Excess Cash for allocation purposes under Section I above.~~

#### IV.V. Benchmark Proxies

**Liquidity Managers.** None.

**Tier 1 Reserve Manager.** The Benchmark Proxy for the Tier 1 Reserve Manager shall be: 100% invested in Intercontinental Exchange Bank of America Merrill Lynch (“**ICE BofAML**”) 1- to 3-year government/corporate bonds rated “A” or better.

**Tier 2 Reserve Manager.** The Benchmark Proxy for the Tier 2 Reserve Manager shall be: 100% invested in ICE BofAML 1- to 5-year government/corporate bonds rated “A” or better.

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<sup>2</sup> ~~Effective immediately, and through December 31, 2020 or such other date as may be approved by the Board, to provide for additional liquidity during the COVID-19 pandemic, the Budget Stabilization Fund shall be transferred to Liquidity Managers pro rata and held in Liquidity Accounts. Notwithstanding the foregoing, the Budget Stabilization Fund set forth in Section IV shall be transferred to the Liquidity Accounts effective immediately through XXXX to provide for additional liquidity during the COVID-19 pandemic.~~

**Tier 3 Reserve Managers.** The Benchmark Proxy for the Tier 3 Reserve Managers shall be: 100% invested in ICE BofAML 5- to 10-year government/corporate bonds rated “A” or better.

~~V. — Modification of Allocation Amounts~~

~~The allocation amounts set forth herein are based on current Cash Account balances and revenue and expense projections and present economic conditions and may need to be modified to account for materially changed circumstances. OST shall have discretion to increase or decrease on a temporary or permanent basis any allocation amount provided that such change does not alter the allocation amount by more than 10 percent (10%). OST shall seek Board approval to increase or decrease any allocation amount by more than 10 percent (10%). OST may temporarily alter an allocation amount in excess of 10 percent (10%) on an emergency basis pending Board approval.~~